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PE/VC Sector in Poland between 2005 and 2008

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Summary

Polish sector of PE/VC has begun to develop intensively in the recent years. Especially it is noticeable in comparison to the Central and Eastern Europe region. The article presents conditions and law regulations concerning existence of VC in Poland and PE investments done in Poland in 2005–2008 as well. The article shows also possibilities of further development PE/VC in Poland and their influence on economy.

Introduction

The market of investment funds has been developing especially rapidly in Poland during the last decade. The PE/VC (Private Equity/Venture Capital) sector began to develop also rapidly within the investment funds market particularly in the last five years. Its development has been quite noticeable in comparison with other countries of Central and Eastern Europe. Therefore, it is worthwhile to identify the main factors paving the way for such rapid development of this sector and investments made by these specific funds. The article presents determinants and main laws regulating the existence of VC funds in Poland and PE/VC investments made in Poland in the years 2005–2008. There are also described possibilities of further development of these funds and their influence on the Polish economy.

It is not an easy task to describe the private equity concept due to its quite big scope, and although it is often used interchangeably with the venture capital concept it is not synonymous with it. This interchangeability results, among other things, from a big share of venture capital funds in the entire private equity market. The European Private Equity & Venture Capital Association (EVCA) defines the private equity as the share capital

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provided for companies, whose shares have not been listed by the regulated market. It can be provided for companies at all stages of their life cycle, that is, in the start-up phase, the initial growth phase, the expansion and further growth (maturity) phase, and it is also the capital provided for companies during their buyout phase and the capital being of the mezzanine capital type. The venture capital, on the other hand, is the main subset of the private equity and it refers to practically all phases in development of a company, which means that it is not a capital provided for its buyout and it does not have the character of mezzanine capital.

1. The VC funds in the Polish legal regulations

The definition of an investment fund is regulated today by the Investment Funds Law of 2004.[1] The main goal of the above Law was to synchronize the Polish regulations with the European Union's ones. The Law defines the object of an investment fund activity as investing financial resources gathered through a public or a non-public offer of buying trust units or investment certificates in securities, instruments of the money market and title-deeds specified in the Law. Thus, this definition allows venture capital institutions to exist, as non-public gathering of financial resources refers to closed investment funds, and venture capital funds are organized in this form. These funds, as higher risk funds make investments with a rather long-term horizon and they are not interested in sudden divestments, as it can be the case with open and specialist open investment funds. Closed investment funds issue investment certificates with their issue being limited (it can be a one-time or multiple issue). These certificates cannot be redeemed, but they can be an object of trade in the secondary market – both in the public and the non-public market.

If a closed investment fund issues non-public investment certificates, it does not have to submit its issue to the public offering procedure, which means that it does not have, among other things, to prepare an issue prospectus, although it should attach to its purchase proposal information where the company's statutes and issue conditions specifying risk factors can be found. It means that such form of the issue is a relatively inexpensive source of acquiring funds for financing operations of companies, especially small and medium-sized enterprises (SMEs). Such enterprises, and especially those having innovative investment projects are an object of interest on the part of venture capital funds, which – in turn – search out projects with a high rate of return potential.

It should be admitted, however, that the liquidity of investment certificates of such funds is relatively small, which causes that their market price is discounted by investors. It means that the value of net assets per one certificate estimated by the fund exceeds their market price. It leads to a conclusion that it is worth holding such certificate in the portfolio till its redemption time specified in its issue conditions. It should be also added that such specific character of a closed investment fund does not force managers in charge

[1] Investment Funds Law of 27th May 2004, Journal of Law of 2004, no. 146, item 1546 with later amendments.

of it to invest in only very liquid instruments and owing to it long-term effects can be better than those yielded by other funds (Buczek, Grygiel, 2006: 21–22). The Law in question sets out, however, upper limits of investment in definite instruments for investment funds leaving the broadest spectrum of choice for closed funds.

The closed investment fund of a special type such as the fund of non-public assets is of crucial importance in the context of venture capital funds. Such specialized fund should invest at least 80% of its assets value in assets other than securities being an object of the public offer or admitted to trade in the regulated market, unless the fund acquired them earlier, or also in the money market instruments. The non-public assets fund can pay out incomes from selling its investments to its participants, which can take place when divestments are made. From the viewpoint of the legal form of a venture capital fund, legal regulations do not create any restrictions in practice, although it should be admitted that limited partnerships and stock companies tend to prevail.

2. Structure of private equity/ venture capital investments

2.1. State of the market

The United States and Western Europe, particularly the United Kingdom, have the most developed PE/VC market. Meanwhile, in Poland this market started developing only recently after the systemic transformation. The situation looks similar in other countries of Central and Eastern Europe. Hence, presentation of the Polish PE/VC market will start with the main statistical data about this market in the region (published by the EVCA). The table below shows the state of PE/VC market in this region with regard to its capital, investments and divestments made.

The EVCA statistical data show that the PE/VC market in Europe began to develop particularly dynamically starting from 2005. Its most rapid development was recorded in 2007 and a fall connected with the international financial crisis took place in 2008. Similar trends can be observed in the above table for the Central and Eastern European countries. It should be noted, however, that the capital gathered by the PE/VC funds in these

Table 1. Activity of PE/VC funds in Central-Eastern Europe in the years 2005–2008

Year	Acquired capital		Investments		Divestments	
	EUR million	Growth rate (t/t-1)	EUR million	Growth rate (t/t-1)	EUR million	Growth rate (t/t-1)
2005	1293	2.61	508	0.93	422	3.43
2006	2254	1.74	1667	3.28	442	1.05
2007	4253	1.89	3005	1.80	586	1.33
2008	2200	0.52	2154	0.72	287	0.49

Source: Central and Eastern Europe Statistics 2008, An EVCA Special Paper – July 2009.
The concept of Central and Eastern Europe is understood to encompass the 15 following countries: Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia.

countries during the analyzed period represented about 2% (with the exception of 2007 when it reached 5.2%) of the capital acquired by these funds in entire Europe. Investments made by these funds in the Central and Eastern European countries made up 2.3% in 2006 and about 4% in 2007–2008 of investments made in the PE/VC market in entire Europe. In turn, divestments made by PE/VC funds in the market of Central and Eastern European countries in the years 2005–2007 made up from 1.3% to 2.3% of divestments made in all European countries. Thus, the PE/VC market in Central and Eastern Europe in relation to entire Europe is poorly developed as yet. Increased activity observed in the PE/VC market and confirmed, for instance, by the value of investments made and their growth from one year to another can be assessed positively. The number of firms, which received support from the PE/VC funds increased also significantly. The number of such firms in the entire region of Central and Eastern Europe reached 400 during the last two years under analysis. Polish enterprises in the market of these funds are the key beneficiary of the entire capital allocated to the market of Central and Eastern European countries.

The value of invested financial resources by the PE/VC funds in four countries of Central and Eastern Europe being the most significant in this respect is shown below.

The above data indicate that most investments in the PE/VC market among all Central and Eastern European countries are made by four countries: Poland, Hungary, the Czech Republic and Romania. Their share in the whole market of Central and Eastern Europe exceeded 84% with the exception of 2007, when it reached 61% (major investments in that year were made by Bulgaria – 556 million EUR and Serbia – 162 million EUR). If we refer the value of investments made by the PE/VC sector to the GDP of a given country, they represented in Poland 0.222% and 0.165% in 2007 and 2008, whereas in all Central and Eastern European countries they reached 0.325% and 0.209%, respectively. Divestments made in the above mentioned countries in the analyzed period are shown in the table below.

The above data show that divestments in the PE/VC market made in Poland in the years 2005–2008 made up from 25% to 31% of all divestments made in all Central and Eastern European countries. The share of divestments made in all four countries listed in the table in all divestments of the Central and Eastern European countries reached: 59%, 75%, 77% and 88%, respectively. The analysis performed on the basis of both tables

Table 2. PE/VC investment in leading countries of Central and Eastern Europe in the years 2005–2008 (in million EUR)

Country/Year	2005	2006	2007	2008
Poland	108 (21)	304 (18)	684 (23)	628 (29)
Hungary	147 (29)	734 (44)	491 (16)	477 (22)
Czech Republic	109 (21)	354 (21)	170 (6)	441 (20)
Romania	70 (14)	110 (7)	476 (16)	273 (13)
Central-Eastern Europe	508 (100)	1667 (100)	3005 (100)	2154 (100)

Source: Own estimates based on EVCA statistics (percentage share in brackets).

Table 3. Divestments of PE/VC in the leading countries of Central and Eastern Europe in the years 2005–2008 (in million EUR)

Country/Year	2005	2006	2007	2008
Poland	107 (25)	138 (31)	175 (30)	73 (25)
Hungary	37 (9)	32 (7)	230 (39)	76 (26)
Czech Republic	61 (14)	115 (26)	8 (1)	8 (3)
Romania	87 (21)	63 (14)	44 (7)	97 (34)
Central-Eastern Europe	422 (100)	442 (100)	586 (100)	287 (100)

Source: Own estimates based on EVCA statistics (percentage share in brackets).

shows a significant position held by Poland in the PE/VC market in the Central and Eastern European countries in the field of both investments and divestments.

2.2. Structure of PE/VC investments with regard to investment phases

As it has been already shown, PE/VC investments amounted to 628 million EUR in Poland in 2008. That amount was lower by 8% in comparison with the record year 2007 (684 million EUR) and it was 5.8 times bigger in relation to 2005 (108 million EUR). It is worth noting also that Poland recorded the highest level of PE/VC investments among all Central and Eastern European countries in the years 2007–2008. Polish companies attracted in those years 23% and 29%, respectively, of all funds invested in the region and they represented 32% of all companies supported by PE/VC funds. The average value of investments made in Poland in 2008 reached 10 million EUR (a drop of 0.5 million EUR in relation to 2007) as compared with 12.5 million EUR in the Central and Eastern European countries (a drop of 2.2 million EUR in comparison with 2007). Against this background, it is worth looking at the structure of PE/VC investments made in Poland with regard to the company development phase, which is shown in the table 4.

Table 4. Structure of PE/VC investment in Poland with regard to the company development phase in the years 2005–2008

Company development phase	2005		2006		2007		2008	
	Amount of investment EUR million	%	Amount of investment EUR million	%	Amount of investment EUR million	%	Amount of investment EUR million	%
Seed/Start-up	0.5	0.5	2.5	0.8	4.3	0.6	18.6	3.0
Growth/Expansion	4.3	4.0	15.0	4.9	131.3	19.2	108.1	17.2
Restructuring	0	0	0	0	1.3	0.2	0.2	0
Buyouts/Refinancing	103.2	95.5	286.5	94.3	547.1	80.0	501.1	79.8
Total	108	100	304	100	684	100	628	100

Source: Own estimates based on the PSIK (Polish Association of Capital Investors) statistics.

The data presented in the table show that the PE/VC funds in Poland allocate a very small part of their capital to the first two phases in the company development, i.e., to seed and start-up. Namely, it was below 1% in the years 2005–2007 and 3% in 2008 of all resources invested in companies. These funds tend to allocate much more to the support of more mature projects, that is, to growth and expansion of companies. The corresponding figures were 19.2% and 17.2% of all resources in the years 2005–2008. Most resources are allocated by the PE/VC funds in Poland to buyouts and refinancing. In the last two analyzed years they reached 80% as compared with above 90% earlier. Such structure of financing the company development phases by the PE/VC funds in Poland is prompted by the investment risk. They show a much greater interest in companies verified by the market and, thus, being in their growth or expansion phase and in mature companies, which need capital for buyout or refinancing, that is the so-called bridge capital, which is the mezzanine capital. However, such situation in the field of PE/VC investments structure in Poland is rather natural, as a similar one can be found not only in the Central and Eastern European countries but also in entire Europe. It means that generally speaking a trend of financing later stages in the company activity or of providing capital for buyout of company (at that time, a company is usually well formed) can be observed among the PE/VC funds.

The statistics of the Polish Association of Capital Investors concerning the years 2007–2008 show also that during the phase of seed and start-up 13 companies in 2007 and 24 in 2008 obtained financial support from the PE/VC funds, during the growth and expansion phase: 25 and 22 companies, respectively, and during the buyout phase – 27 and 17 companies.

The above data do not allow drawing any far-reaching conclusions. It is hard to say whether a further development of the Polish PE/VC funds market will be accompanied by an increasing financing by the VC funds and, thus, their bigger orientation at financing the seed, start-up and the first stage in growth of companies. Today efforts are made to support funds oriented at small enterprises, and programmes launched in Poland are to pave the way for a bigger supply of capital used for implementing innovative projects.

2.3. Investment structure by branch

One of more important characteristics of the private equity market concerns the branch attractiveness of companies. Quite big differentiation can be observed here, which results from the fact that the PE/VC funds implement their chosen investment strategies. The majority of 39 companies controlling PE/VC funds grouped in the Polish Association of Capital Investors define the activity type of companies, which are an object of their special interest. Declarations concerning their interest in a particular branch expressed on web-sites show that most funds would like to invest in the information technology (IT) sector, the medical sector, and telecommunications. Some funds express their interest in only a chosen subsector within a declared sector, for example, within the IT sector a distinction is still made between: IT – Internet, IT – software, IT – semiconductors, IT – hardware, IT – mobile technologies and IT – services.

Table 5. Structure of PE/VC investments in Poland by branch in the years 2007–2008

Branch	2007			2008		
	Investments amount EUR million	%	Number of companies	Investments amount EUR million	%	Number of companies
Production for business	138.2	20.2	11	81.4	13.0	6
Business services	2.6	0.4	1	22.6	3.6	3
Chemicals and materials	0.9	0.1	1	0	0	0
Telecommunications and media	11.8	1.7	17	5.9	0.9	17
Information technologies	26.3	3.8	5	19.0	3.0	7
Construction	12.8	1.9	3	5.1	0.8	1
Consumer goods	81.0	11.8	10	144.0	22.9	10
Power and raw materials	62.0	9.1	2	56.1	8.9	2
Financial services	133.5	19.5	8	46.0	7.3	4
Medicine, pharmaceutics and biotechnologies	102.8	15.0	5	60.5	9.6	6
Transport	111.7	16.3	2	173.4	27.6	3
Others	0	0	0	14.0	2.2	4
Total	683.6	100	65	628.0	100	63

Source: Statistical data of the Polish Association of Capital Investors.

It should be noted, however, that such declarations concerning their branch interests do not correspond to the 'investment reality" of the PE/VC funds, i.e. to what is reflected by statistical data shown by the EVCA and the Polish Association of Capital Investors. The structure of PE/VC investments in Poland by branch in the years 2007–2008 is presented below (available data for 2005–2006 are, unfortunately, not comparable).

As regards the structure of PE/VC investments in Poland by branch, they were made mostly in transport companies and in companies dealing with production and distribution of consumer goods in 2008. The funds invested there amounted to 173 and 144 million EUR, respectively, that is, they accounted for 27.6% and 22.9% of all their resources. A year earlier most funds were invested in production for business, financial services and transport. As for the number of companies, where investments were made, most such companies in the two analyzed years were involved in telecommunications and media, and production and distribution of consumer goods. It is quite interesting to note that the structure of PE/VC investments by branch in Poland in the years 2007–2008 does not show a clear concentration on any selected branch but rather their dispersal.

2.4. Divestments

Assumptions concerning the form of divestments are an object of deliberations already during negotiations between owners of a company and a private equity/venture capital fund. This item of negotiations is important, as it frequently decides about the final shape of a transaction. It is due to the fact that a company owner seeks such form of financing, which will not deprive him of a source of income in the future, and the fund's assumption is an exit from an investment /divestment/. Consequently, the fund must have a possibility of controlling its share elastically. Studies carried out by the Polish Association of Capital Investors show that the sale of shares to a branch investor or entering the Stock Exchange through a public offering are the form of divestments most frequently declared by the PE/VC funds. The last mentioned form of a divestment is possible, however, only when a given company has scored an evident success and has a considerable potential of further growth. In such case Stock Exchange investors can reckon on a definite capital return from such companies in the future. In turn, an interest of a branch investor in a divestment made by a PE/VC fund is prompted primarily by synergy effects resulting from, for example, a take-over of a market, distribution network, and so on.

Due to the fact that an investment in a chosen company made by a PE/VC fund lasts several years as a rule, the preferred divestment form (or its form agreed upon in the course of negotiations) is not always implemented, which is caused primarily by variability of market conditions (business situation). There may also appear new developments resulting from the fund's co-operation with the company or an offer from and an initiative advanced by other business units, which could not be envisaged earlier. The table below presents divestments made by the PE/VC funds in Poland in the years 2005–2008.

According to the EVCA's data for 2008, PE/VC funds made divestments in 17 Polish companies (as compared with 30 in 2007) to the amount of 73 million EUR, which meant a 58% drop in comparison with 2007 (175 million EUR). The amount of

Table 6. Divestments made by the PE/VC funds in Poland in the years 2005–2008 (million EUR)

Type of divestment/ Year	2005	2006	2007	2008
Sale to another branch investor	74.1 (64.1)	19.0 (13.6)	23.0 (13.2)	20.5 (28.1)
Public offering	22.0 (19.1)	74.8 (53.4)	5.9 (3.4)	0.2 (0.3)
Company liquidation	8.1 (7.0)	0 (0)	0 (0)	2.1 (2.9)
Sale through loan repayment	0.3 (0.2)	17.2 (12.3)	22.4 (12.8)	0 (0)
Sale to another VC fund	1.1 (1.0)	21.1 (15.1)	95.2 (54.4)	27.0 (37.0)
Sale to financial institution	0.6 (0.5)	0 (0)	3.8 (2.2)	0 (0)
Sale to management board (MBO)	1.3 (1.1)	4.4 (3.1)	3.4 (1.9)	3.6 (4.9)
Another way	8.1 (7.0)	3.5 (2.5)	21.1 (12.1)	19.6 (26.8)
Total	115.6 (100)	140.0 (100)	174.8 (100)	73.0 (100)

Source: own estimates based on the EVCA's Yearbooks. Divestment amounts – according to an initial value of an investment, which means it is not an income obtained from a company's sale. Percentage shares are given in brackets.

divestments made in 2007 is the highest one in the analyzed period of four years, and it should not surprise taking into account the business situation. In 2006 the rate of divestments made reached 21.1% and 24.8% in 2007. The most popular form of divestments in the years 2007–2008 was the sale of a company to another VC fund and its sale to a branch investor. In turn, due to a very good Stock Exchange situation in 2006, the public offering predominated by far. It should be noted that during the period of a bad business situation (2008) almost 5% of divestments were management board buyouts (5 companies).

3. Sources of capital in the PE/VC funds

It would be interesting to look at sources of origin of capital owned by the private equity/venture capital funds. As regards such funds in entire Europe, statistical data gathered by the EVCA allow to estimate that the most important sources of capital on average in 2005–2008 were:

Pension funds	– 27.2%
Funds of funds	– 16.1%
Banks	– 13.2%
Insurance companies	– 10.1%
Government agencies	– 7.9%
Private investors	– 7,0%

Taken together, the above institutions provided on average 81.5% of capital for the European PE/VC funds in those years. It should be noted that over one-fourth of capital comes from the pension funds (they supplied 33% of capital in 2008). However, comparing the capital allocated by the pension funds to increased risk investments with total assets of these funds, it should be stated that these investments did not represent a substantial part of their assets. It can be supposed that the pension funds invest their capital in the PE/VC funds due to a relatively long time horizon of these investments, a high rate of return which can be achieved and allocation of assets possessed by the PE funds to management board buyouts and refinancing of companies (providing the mezzanine capital). The pension funds can also invest their capital in the PE/VC funds in order to diversify their investment risk. Insurance companies can also perceive their investments in the PE/VC funds in a similar way, as they wish to diversify the investment risk and achieve a possible high rate of return in the long term on their investment from which liquidity is not required. In turn, investments in PE/VC for banks can be an interesting opportunity for expanding their activities in the future, when they can win new customers such as young entrepreneurs generating big cash flows during later stages in growth of their companies and needing external capital (debts) for financing their activities.

Analyzing the inflow of capital to the PE/VC funds in the Central and Eastern European countries from the viewpoint of its sources, it can be said that the funds of funds

Table 7. Structure of sources of capital possessed by the PE/VC funds in Poland in the years 2005–2008 (in %)

Investor / Year	2005	2006	2007	2008
Pension funds	0	21.3	24.9	20.7
Funds of funds	0	46.2	6.3	33.8
Banks	20.0	3.6	23.3	10.8
Insurance companies	0	4.4	33.0	3.3
Government agencies	10.0	0	0	6.5
Private investors	50.0	18.2	0	0.5
Others	20.0	6.3	12.5	24.4
Total	100	100	100	100

Source: Polish Association of Capital Investors.

(about 25%) and the pension funds (about 16%) were the biggest providers of capital in the years 2007–2008 (only for these years data are available). Private investors and banks rank next (a little below 10%). Therefore, it can be generally said that capital for the PE/VC funds is provided mainly by the pension funds and the funds of funds (the latter are established on initiative of the State to support the development of small and medium-sized enterprises).

In turn, the table below shows the sources of capital possessed by the PE/VC funds in Poland in the years 2005–2008.

The table shows a quite significant diversification of sources of capital in the private equity / venture capital funds in Poland in the analyzed period. In the last three years, however, the most important role was played by the pension funds, the funds of funds and the banks. Private investors were important providers of capital for the PE/VC funds in the years 2005–2006 and insurance companies in 2007. It can, thus, be said that the structure of their sources of capital in Poland is quite similar to the structure of capital sources in such funds in entire Europe. It can be added that the item “Others” in 2008 includes, among other entities “Foundations” which contributed 15.7% of capital. It should be also noted that government agencies and institutions established on the initiative of the government such as the fund of funds, whose main task is supporting the development of entrepreneurship and, in particular, in the field of small and medium-sized innovative enterprises contributed 40.3% of capital in 2008.

4. Development prospects of the PE/VC market in Poland

The relevant literature contains many deliberations concerning factors stimulating development of the private equity / venture capital market. To give an example, a wide range of such factors can be found in the book published by M. Wrzesiński (2008: 272–273), who considers the most important of these factors to be:

1) supply of capital – particularly, from its source point of view,

2) adjustment of an investment project to a given fund's preferences,
3) real possibilities of making divestments – an important aspect here is a well developed capital market.

It can be generally said that the Polish PE/VC market is poorly developed as yet, although with regard to the level of its development Poland ranks among the leading Central and Eastern European countries. The development of this market is promoted by the Polish Association of Capital Investors and the European Venture Capital Association (EVCA). Its development is also supported by the European Union mainly through its launching of target programmes such as, for example, the Competitiveness and Innovation Framework Programme 2007–2013: CIP. The most important element of this programme for entrepreneurs is a subprogramme addressed to the sector of micro, small and medium-sized enterprises. Its main objective is providing support for financing early stages in development of enterprises from this sector and, in particular, innovation-oriented enterprises. One of instruments offered by this programme is a system of collaterals for the SME sector.

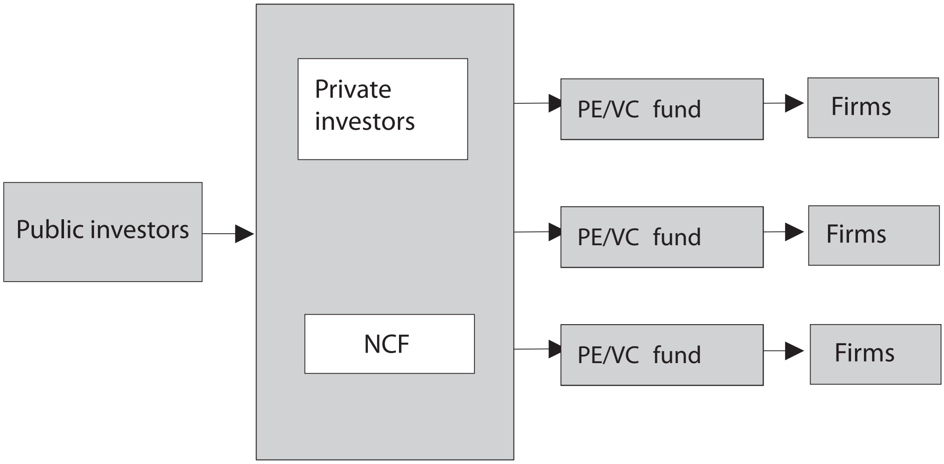
Owing to the above programme and its instruments, opportunities were created for acquiring additional capital by the venture capital funds operating in Poland, as well as in other countries of Central and Eastern Europe. The CIP programme can supplement the capital flowing from programmes implemented in Poland. Such programmes in this country are carried out by the Polish Entrepreneurship Development Agency. They include programmes oriented at equity financing or programmes linked directly with the private equity market. Their example can be programmes oriented at financing by means of:
1) a subsidy for pre-incubation – allowing to cover 100% of costs incurred by an innovative unit,
2) a capital entry – consisting in taking over 50% of shares (to the amount of 200,000 euro) provided an entrepreneur's capital comes from private sources.

The next institution which can be of great importance for an easier access to capital for Polish enterprises in the field of innovative economy can be the National Capital Fund.[2] In the period of 2007–2013 this fund will have at its disposal 180 million euro from the EU's funds in the framework of – Competition and Innovation 3.2. Framework Programme. The National Capital Fund is aimed primarily at promotion of the SME sector development through filling in the capital gap, that is, the lack of equity capital and, in particular, the capital needed during the first phases in development of small and medium-sized innovative enterprises. The National Capital Fund operates along principles of the fund of funds, which means that it invests in appropriately selected VC funds, which next invest in innovative SMEs participating in their capitalization up to 50%. Operations of the National Capital Fund (NCF) are shown in the figure 1.

The figure 1 shows that in accordance with its main assumptions the National Capital Fund is linked directly with the market of PE/VC funds. The strategy of supporting increased risk funds such as the VC funds by the National Capital Fund is an example of a specific public-private partnership (Gębala, 2008: 32–33), which allows to combine the public investor's capital (the NCF's share cannot surpass 50%) with the private capital.

[2] Established on the government initiative by the National Capital Fund Law of March 4th, 2005.

Figure 1. Principles of financing the National Capital Fund



Source: Principles of financing VC funds January 2008, www.kfk.org.pl

The conditions on which financial support can be provided for the VC funds and a further co-operation with them are regulated by relevant legal provisions.[3] They say, among other things, that an object of co-financing can be projects:

1) connected with a new product or service (of an enterprise, which is at the stage of analysis, development, launching in the market, broadening its operations or expanding its production capacity),
2) connected with innovative technologies,
3) having a big growth potential.

Such financial support can be provided for a period up to 12 years.

Basing on the US economy example, many authors point in their studies at a particularly positive influence exerted by the PE/VC funds on economic development mainly through raising this economy to a higher technological level. The studies show also that a support provided for financing companies by means of an increased risk capital generates quite significant measurable advantages in the field of growing employment and sales revenues. Similar advantages can be observed in Western Europe. Provided the market of private equity/ venture capital funds in Poland continues to develop at such pace as in the years 2005–2007, the Polish economy will be deriving increasingly big advantages from the development of this market and, particularly, from launching modern technological innovations.

[3] See: The National Capital Law, op. cit. and Minister of Economy Decree of 15th June 2007 regulating financial support for the National Capital Fund.

Conclusions

Over the years 2005–2007 the market of PE/ VC funds in Poland was developing very intensively. Despite it, there is still a very big gap in relation to this market in highly developed Western European countries. The legal regulations governing organization and operation of VC funds in Poland do not pose practically any barriers to establishing them. However, the main problem is still a relatively small amount of capital possessed by these funds. The PE/ VC funds operating in Poland today allocate more and more of their resources to development and expansion of firms, however, they earmark too many resources to their refinancing as yet. As regards the structure of investments by branch, the PE/VC funds invest most of their resources in production for business, transport, and production and distribution of consumer goods. On the other hand, as to the structure of capital sources the pension funds and the funds of funds dominate. Further development of the PE/VC funds market in Poland can be enhanced by financial resources from the EU and the budget, which will be directed to the VC funds through the National Capital Fund and next to innovative small and medium-sized enterprises.

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Sektor PE/VC w Polsce w latach 2005–2008

Streszczenie

W ostatnich kilku latach polski sektor PE/VC zaczął rozwijać się bardzo intensywnie. W szczególności można to zauważyć w porównaniu z regionem Europy Centralnej i Wschodniej. Głównym celem artykułu jest prezentacja uwarunkowań i podstawowych regulacji prawnych istnienia w Polsce funduszy VC oraz analiza inwestycji PE/VC dokonanych w Polsce w latach 2005–2008. Artykuł prezentuje również możliwości dalszego rozwoju tych funduszy oraz ich wpływ na gospodarkę kraju.